

1 UNITED STATES
2 DEPARTMENT OF THE INTERIOR
3 BUREAU OF RECLAMATION
4 Central Valley Project, California
5

6 FIRST AMENDMENT TO CONTRACT BETWEEN THE UNITED STATES AND
7 SANTA CLARA VALLEY WATER DISTRICT FOR WATER SERVICE AND
8 OPERATION AND MAINTENANCE OF CERTAIN WORKS OF THE SAN FELIPE
9 DIVISION
10
11

12 THIS AMENDMENT TO CONTRACT No. 7-07-20-W0023, is made this ____ day of
13 _____, 2006 in pursuance generally of the Act of June 17, 1902 (32 Stat. 388), and acts
14 amendatory and supplementary thereto, including but not limited to, the Acts of August 26, 1937
15 (50 Stat. 844), as amended and supplemented; August 4, 1939 (53 Stat. 1187), as amended and
16 supplemented; July 2, 1956 (70 Stat. 483), June 21, 1963 (77 Stat. 68), August 27, 1967 (81 Stat.
17 173), October 12, 1982 (96 Stat. 1263), October 27, 1986 (100 Stat. 3050), as amended, and Title
18 XXXIV of the Act of October 30, 1992, (106 Stat 4706), all collectively hereinafter referred to
19 as Federal Reclamation law, between THE UNITED STATES OF AMERICA, hereinafter
20 referred to as the United States, and THE SANTA CLARA VALLEY WATER DISTRICT,
21 hereinafter referred to as the Contractor, a public agency of the State of California, duly
22 organized, existing, and acting pursuant to the laws thereof;

23 WITNESSETH, That:

24 EXPLANATORY RECITALS

25 [1st] WHEREAS, the United States has constructed and is operating the Central Valley
26 Project (Project), California, for diversion, storage, carriage, distribution and beneficial use, for

flood control, irrigation, municipal, domestic, industrial, fish and wildlife mitigation, protection and restoration, generation and distribution of electric energy, salinity control, navigation and other beneficial uses, of water of the Sacramento River, the American River, the Trinity River, and the San Joaquin River and their tributaries; and

[2nd] WHEREAS, the Contractor and the United States entered into a contract for delivery of Central Valley Project water to the Contractor, Contract No. 7-07-20-W0023, dated June 7, 1977, which established terms for the delivery to the Contractor of Central Valley Project Water from January 1, 1988 through December 31, 2027, (hereinafter referred to as the “Existing Contract”); and

[3rd] WHEREAS, in 1992, Congress enacted the Central Valley Project Improvement Act (CVPIA) (106 Stat. 4706), which addressed the renewal of existing long-term water service contracts and established that certain terms should be included in contracts renewed or amended after January 1, 1988; and

[4th] WHEREAS, to promote compliance with the CVPIA, consistent with the goal of ensuring a reliable long-term water supply for the Contractor, the parties desire to amend the Existing Contract pursuant to Federal Reclamation law on the terms and conditions set forth below;

NOW, THEREFORE, in consideration of the mutual and dependent covenants herein contained, it is hereby mutually agreed by the parties hereto as follows:

MODIFICATION TO EXISTING CONTRACT

1. Article 1 of the Existing Contract entitled **DEFINITIONS** is amended as follows:

a) Subdivisions (d) and (e) are hereby deleted in their entirety and replaced with the following definitions, and the remaining definitions are redesignated (e) – (k) accordingly:

(d) “San Felipe Division Facilities” shall mean those existing and future Project facilities generally west of San Luis Reservoir used to divert, store and convey water to the Contractor(s). San Felipe Facilities are divided into reaches, as defined as follows:

i) “Reach 1” shall mean the facilities from the Pacheco Tunnel to and including the Pacheco Bifurcation Structure, including but not limited to, the Pacheco Pumping Plant Substation, Pacheco Pumping Plant Substation – 70kvLine, Pacheco Tunnel (including the inlet works in and under San Luis Reservoir), Pacheco Conduit and Pacheco Bifurcation Structure;

ii) “Reach 2” shall mean the facilities from, but not including, the Pacheco Bifurcation Structure to and including the Watsonville Turnout facility, and Santa Clara Tunnel and Conduit;

iii) “Reach 3” shall mean the facilities from, but not including, the Watsonville Turnout facility to and including the Coyote Pumping Plant, including but not

limited to, the Santa Clara Tunnel and Conduit, Coyote Pumping Plant, Coyote Pumping Plant Substation and Coyote Pumping Plant 115 kv Line;

iv) “San Benito Facilities” shall mean San Felipe Division Facilities used to deliver water to the San Benito Water District exclusively, including the Hollister Conduit and the San Justo Dam and Reservoir;

b) The following definitions are hereby added to Article 1 as follows:

(l) “Charges” shall mean the payments required by Federal Reclamation law in addition to the Rates and Tiered Pricing Component specified in this Contract as determined annually by the Contracting Officer pursuant to this Contract;

(m) “Contract,” shall mean the Existing Contract as amended hereby;

(n) “Contractor’s Service Area” shall mean the area to which the Contractor is permitted to provide Project Water under this Contract, as set forth on Exhibit “A” attached hereto which may be modified from time to time without amendment to this Contract;

(o) “Delivered Water” or “Water Delivered” shall mean Project water diverted for use by the Contractor at the point(s) of delivery approved by the Contracting Officer;

(p) “Full Cost Rate” shall mean an annual rate, as determined by the Contracting Officer, that shall amortize the expenditures for construction properly allocable to the Project irrigation or M&I functions, as appropriate, or facilities in service including all O&M deficits funded, less payments, over such periods as may be required under Federal Reclamation

law or applicable contract provisions. Interest will accrue on both the construction expenditures and funded O&M deficits from October 12, 1982, on costs outstanding at that date, or from the date incurred in the case of costs arising subsequent to October 12, 1982, and shall be calculated in accordance with subsections 202(3)(b) and (3)(C) of the RRA. The Full Cost Rate includes actual operation, maintenance, and replacement costs consistent with Section 426.2 of the Rules and Regulations of the RRA;

(q) “Operating Non-Federal Entity” shall mean the Operating Non-Federal Entity(ies) and their successors or assigns, which have the obligation to operate and maintain all or a portion of the Project facilities including the Division Facilities pursuant to written agreements with the United States. As of the effective date of this Contract, the Operating Non-Federal Entity(ies) were the San Luis & Delta-Mendota Water Authority with respect to certain Delta Division Facilities, Santa Clara Valley Water District with respect to certain Division Facilities, and the San Benito County Water District with respect to certain Division Facilities;

(r) “Rates” shall mean the payments determined annually by the Contracting Officer in accordance with the then current applicable ratesetting policies for the Project, as described in Article 11 of this Contract;

(s) “M&I Full Cost Water Rate” shall mean the Full Cost Rate applicable to the delivery of M&I Water;

(t) “Tiered Pricing Component” shall be the incremental amount to be paid for each acre-foot of Water Delivered as described in subdivision (j) of Article 11 of this Contract.

2. **The last sentence of subdivision (b) of Article 7 of the Existing Contract entitled WATER SHORTAGE AND APPORTIONMENT is hereby deleted and replaced with the following:**

“In the event reduced deliveries within the Division are necessary, Project water furnished under this contract for M&I purposes will be allocated in accordance with the CVP M&I Water Shortage Policy. Such Policy shall be amended, modified, or superseded only through public notice and comment procedure.”

3. **Article 8 of the Existing Contract entitled QUALITY OF WATER is amended to add the following subdivision:**

(b) The Contractor shall be responsible for compliance with all State and Federal water quality standards applicable to the Contractor for surface and subsurface agricultural drainage discharges generated through the use of Federal facilities for Water Delivered to the Contractor.

4. **Article 9(d)(1) of the Existing Contract entitled POINT OF DELIVERY – MEASUREMENT – RESPONSIBILITY FOR DISTRIBUTION – is deleted in its entirety and replaced with the following:**

9. (d)(1)(i) The Contractor has established a measuring program satisfactory to the Contracting Officer. The Contractor shall ensure that all surface water delivered for irrigation purposes to the Contractor's customers within the Contractor's Service Area is measured at each agricultural turnout and such water delivered for M&I purposes to the Contractor's customers is measured at each M&I service connection. The water measuring devices or water measuring methods of comparable effectiveness must be acceptable to the Contracting Officer. The Contractor shall be responsible for ensuring that its retail customers are installing, operating, and maintaining and repairing all measuring devices and implementing all water measuring methods at no cost to the United States. The Contractor shall use the information obtained from such water measuring devices or water measuring methods to ensure its proper management of the water, to bill water users for water delivered by the Contractor; and, if applicable, to record water delivered for M&I purposes by customer class as defined in the Contractor's water conservation plan provided for in Article 43 of this Contract. Nothing herein contained, however, shall preclude the Contractor from establishing and collecting any charges, assessments, or other revenues authorized by California law. The Contractor shall include a summary of all its annual surface water deliveries in the annual report described in subdivision (c) of Article 43 of this Contract.

(d)(1)(ii) To the extent the information has not otherwise been provided, upon the effective date of this Contract, the Contractor shall provide to the Contracting Officer a written report describing the measurement devices or water measuring methods being

used or to be used to implement subdivision (d)(1)(i) of this Article and identifying the agricultural turnouts and the M&I service connections or alternative measurement programs approved by the Contracting Officer, at which such measurement devices or water measuring methods are being used, and, if applicable, identifying the locations at which such devices and/or methods are not yet being used including a time schedule for implementation at such locations. The Contracting Officer shall advise the Contractor in writing within 60 days as to the adequacy, and necessary modifications, if any, of the measuring devices or water measuring methods identified in the Contractor's report and if the Contracting Officer does not respond in such time, they shall be deemed adequate. If the Contracting Officer notifies the Contractor that the measuring devices or methods are inadequate, the parties shall within 60 days following the Contracting Officer's response, negotiate in good faith the earliest practicable date by which the Contractor shall modify said measuring devices and/or measuring methods as required by the Contracting Officer to ensure compliance with subdivision (d)(1)(i) of this Article."

(d)(1)(iii) All new surface water delivery systems installed within the Contractor's Service Area after the effective date of this Contract shall also comply with the measurement provisions described in subdivision (d)(1)(i) of this Article."

(d)(1)(iv) The Contractor shall inform the Contracting Officer and the State of California in writing by April 30 of each Year of the monthly volume of surface water delivered within the Contractor's Service Area during the previous Year."

(d)(1)(v) The Contractor shall inform the Contracting Officer and the Operating Non-Federal Entity on or before the 20th calendar day of each month of the quantity of Agricultural Water and M&I Water taken during the preceding month.

5. Article 11 of the Existing Contract entitled **RATES OF PAYMENT FOR WATER** and Article 12 of the Existing Contract entitled **METHOD OF PAYMENT FOR WATER** are hereby deleted in their entirety and replaced with the following:

RATES AND METHOD OF PAYMENT FOR WATER

11. (a) The Contractor shall pay the United States as provided in this Article for all Delivered Water at Rates, Charges, and the Tiered Pricing Component established in accordance with: (i) the Secretary of the Interior's Irrigation Ratesetting Policy and the Secretary's then-existing ratesetting policy for M&I water. Such ratesetting policies shall be amended, modified, or superseded only through a public notice and comment procedure; (ii) applicable Federal Reclamation law and associated rules and regulations, or policies; and (iii) other applicable provisions of this Contract. Payments shall be made by cash transaction, electronic funds transfer, or any other mechanism as may be agreed to in writing by the Contractor and the Contracting Officer. The Rates, Charges, and Tiered Pricing Component applicable to the Contractor upon execution of this Contract are set forth in Exhibit "B," which shall be attached hereto, as may be revised annually.

(b) The Contracting Officer shall notify the Contractor of the Rates, Charges, and Tiered Pricing Component as follows:

(1) Prior to July 1 of each calendar year, the Contracting Officer shall provide the Contractor an estimate of the Charges for Project water that will be applied to the period October 1, of the current calendar year, through September 30, of the following calendar year, and the basis for such estimate. The Contractor shall be allowed not less than two months to review and comment on such estimates. On or before September 15 of each calendar year, the Contracting Officer shall notify the Contractor in writing of the Charges to be in effect during the period October 1 of the current calendar year, through September 30, of the following calendar year, and such notification shall revise Exhibit "B."

(2) Prior to October 1 of each calendar year, the Contracting Officer shall make available to the Contractor an estimate of the Rates and Tiered Pricing Component for Project water for the following year and the computations and cost allocations upon which those Rates are based. The Contractor shall be allowed not less than two months to review and comment on such computations and cost allocations. By December 31 of each calendar year, the Contracting Officer shall provide the Contractor with the final Rates and Tiered Pricing Component to be in effect for the upcoming year, and such notification shall revise Exhibit "B."

(c) At the time the Contractor submits the initial schedule for the delivery of Project water for each year pursuant to Article 4 of this Contract, the Contractor shall make an advance payment to the United States equal to the total amount payable pursuant to the applicable Rate(s) set under subdivision (a) of this Article, for the Project water scheduled to be delivered pursuant to this Contract during the first two calendar months of the year. Before the

end of the first month and before the end of each calendar month thereafter, the Contractor shall make an advance payment to the United States, at the Rate(s) set under subdivision (a) of this Article, for the water scheduled to be delivered pursuant to this Contract during the second month immediately following. Adjustments between advance payments for water scheduled and payments at Rates due for Water Delivered shall be made before the end of the following month; Provided, That any revised schedule submitted by the Contractor pursuant to Article 4 of this Contract which increases the amount of Water Delivered pursuant to this Contract during any month shall be accompanied with appropriate advance payment, at the Rates then in effect, to assure that Project water is not delivered to the Contractor in advance of such payment. In any month in which the quantity of Water Delivered to the Contractor pursuant to this Contract equals the quantity of water scheduled and paid for by the Contractor, no additional Project water shall be delivered to the Contractor unless and until an advance payment at the Rates then in effect for such additional Project water is made. Final adjustment between the advance payments for the water scheduled and payments for the quantities of Water Delivered during each year pursuant to this Contract shall be made as soon as practicable but no later than April 30th of the following year.

(d) The Contractor shall also make a payment in addition to the Rate(s) in subdivision (c) of this Article to the United States for Water Delivered, at the Charges and the appropriate Tiered Pricing Component then in effect, before the end of the month following the month of delivery; Provided, That the Contractor may be granted

an exception from the Tiered Pricing Component pursuant to subdivision (j)(2) of this Article.

The payments shall be consistent with the quantities of agricultural water and M&I water delivered as shown in the water delivery report for the subject month prepared by the Operating Non-Federal Entity(ies) or, if there is no Operating Non-Federal Entity, by the Contracting Officer. The water delivery report shall be deemed a bill for the payment of Charges and the applicable Tiered Pricing Component for Water Delivered. Adjustment for overpayment or underpayment of Charges shall be made through the adjustment of payments due to the United States for Charges for the next month. Any amount to be paid for past due payment of Charges and the Tiered Pricing Component shall be computed pursuant to Article 14 of this Contract.

(e) The Contractor shall pay for any Water Delivered under subdivision (g) or (h) of Article 3 of this Contract as determined by the Contracting Officer pursuant to applicable statutes, associated regulations, any applicable provisions or guidelines or ratesetting policies; Provided, That the Rate for Water Delivered under subdivision (g) or (h) of Article 3 of this Contract shall be no more than the otherwise applicable Rate for agricultural water or M&I water under subdivision (a) of this Article;

(f) Payments to be made by the Contractor to the United States under this Contract may be paid from any revenues available to the Contractor.

(g) All revenues received by the United States from the Contractor relating to the delivery of Project water or the delivery of non-Project water through Project facilities shall

be allocated and applied in accordance with Federal Reclamation law and the associated rules or regulations, and the then current Project ratesetting policies for M&I water or agricultural water.

(h) The Contracting Officer shall keep its accounts pertaining to the administration of the financial terms and conditions of its long-term contracts, in accordance with applicable Federal standards, so as to reflect the application of Project costs and revenues. The Contracting Officer shall, each year upon request of the Contractor, provide to the Contractor a detailed accounting of all Project and Contractor expense allocations, the disposition of all Project and Contractor revenues, and a summary of all water delivery information. The Contracting Officer and the Contractor shall enter into good faith negotiations to resolve any discrepancies or disputes relating to accountings, reports, or information.

(i) The parties acknowledge and agree that the efficient administration of this Contract is their mutual goal. Recognizing that experience has demonstrated that mechanisms, policies, and procedures used for establishing Rates, Charges, and Tiered Pricing Component, and/or for making and allocating payments, other than those set forth in this Article may be in the mutual best interest of the parties, it is expressly agreed that the parties may enter into agreements to modify the mechanisms, policies, and procedures for any of those purposes while this Contract is in effect without amending this Contract.

(j) (1) Beginning at such time as deliveries of Project water in a year exceed 80 percent of the total available pursuant to this Contract, then before the end of the

month following the month of delivery the Contractor shall make an additional payment to the United States equal to the applicable Tiered Pricing Component. The Tiered Pricing Component for the amount of Water Delivered in excess of 80 percent of the total available pursuant to this Contract, but less than or equal to 90 percent of that total, shall equal one-half of the difference between the Rate established under subdivision (a) of this Article and the Full Cost Rate for agricultural water or Full Cost Rate for M&I water, whichever is applicable. The Tiered Pricing Component for the amount of Water Delivered which exceeds 90 percent of the total available pursuant to this Contract shall equal the difference between (i) the Rate established under subdivision (a) of this Article and (ii) the Full Cost Rate for agricultural water or Full Cost Rate for M&I water, whichever is applicable.

(2) Subject to the Contracting Officer's written approval, the Contractor may request and receive an exemption from such Tiered Pricing Component for Project water delivered to produce a crop which the Contracting Officer determines will provide significant and quantifiable habitat values for waterfowl in fields where the water is used and the crops are produced; Provided, That the exemption from the Tiered Pricing Component for agricultural water shall apply only if such habitat values can be assured consistent with the purposes of the CVPIA through binding agreements executed with or approved by the Contracting Officer prior to use of such water.

(3) For purposes of determining the applicability of the Tiered Pricing Component pursuant to this Article, Water Delivered shall include Project water that the

Contractor transfers to others and Project water provided to the Contractor pursuant to subdivision (h) of Article 3 of this Contract, but shall not include Project water transferred to the Contractor.

(k) For the term of this Contract, Rates applied under the respective ratesetting policies will be established to recover only reimbursable O&M (including any deficits) and capital costs of the Project, as those terms are used in the then-current Project ratesetting policies, and interest, where appropriate, except in instances where a minimum Rate is applicable in accordance with the relevant Project ratesetting policy. Changes of significance in practices which implement the Contracting Officer's ratesetting policies will not be implemented until the Contracting Officer has provided the Contractor an opportunity to discuss the nature, need, and impact of the proposed change.

(l) Except as provided in subsections 3405(a)(1)(B) and 3405(f) of the CVPIA, the Rates for Project water transferred by the Contractor shall be the Contractor's Rates adjusted upward or downward to reflect the changed costs, if any, incurred by the Contracting Officer in the delivery of the transferred Project water to the transferee's point of delivery in accordance with the then applicable Project ratesetting policy. If the Contractor is receiving lower Rates and Charges because of inability to pay and is transferring Project water to another entity whose Rates and Charges are not adjusted due to inability to pay, the Rates and Charges for transferred Project water shall not be adjusted to reflect the Contractor's inability to pay.

(m) Pursuant to the Act of October 27, 1986 (100 Stat. 3050), the Contracting Officer is authorized to adjust determinations of ability to pay every five years.

REPAYMENT OBLIGATION

The Contractor's repayment obligation is described below:

12. (a) Repayment of San Felipe Division Facilities. The Contractor and San Benito County Water District are each entering into contracts with the United States committing to repay their separate, individual share of the total reimbursable capital costs for the San Felipe Division Facilities. These contracts collectively will provide for repayment of the unpaid reimbursable capital costs as of September 30, 2006. Until the final accounting of such costs is available, the Contractor's and San Benito County Water District's interim repayment terms will be based on the September 30, 2004, reimbursable capital costs for the San Felipe Division Facilities, which totaled \$319,417,648, as shown on Exhibit C, which exhibit may be revised by mutual agreement of the parties and San Benito County Water District without amending this Contract. These reimbursable capital costs for the San Felipe Division Facilities are summarized below:

(1) Reach 1 Facilities. The total reimbursable capital cost of Reach 1 Facilities including allocated interest during construction as of September 30, 2004, is \$154,488,043.

(2) Reach 2 Facilities and Reach 3 Facilities. The total reimbursable

capital cost of Reach 2 Facilities and Reach 3 Facilities including allocated interest during construction, as of September 30, 2004, is \$101,192,916.

(3) San Benito Facilities. The total reimbursable capital costs of the San Benito Facilities including allocated interest during construction as of September 30, 2004, is \$63,736,689.

(4) Interest During Construction. The total reimbursable interest during construction, as of September 30, 2004, is \$32,227,149.

(b) Final Accounting for San Felipe Division Facilities. In the event that the September 30, 2006, final accounting of the unpaid reimbursable capital costs for the San Felipe Division Facilities is not available by December 31, 2007, the Contractor's and San Benito County Water District's repayment obligations will be based on the most recent total reimbursable capital costs available, and include all payments through December 31, 2007.

(c) San Felipe Division Facilities Interest Rates. The interest rate for the Pacheco Tunnel Inlet used for M&I purposes is 3.137 percent per annum. The interest rate for the San Felipe Division Facilities, not including the Pacheco Tunnel Inlet, used for M&I purposes is 3.50 percent per annum. Any calculation or recalculation of the annual payment schedule shown in Exhibit D in this Contract, or in any subsequent renewed or amended contract during the remainder of the 50-year repayment period, shall be based on these interest rates.

(d) Repayment of Unpaid Capital Interest. The Contractor shall pay for

unpaid capital interest, consistent with the “Agreement Among the United States, City of Fresno, City of Coalinga, Contra Costa Water District, Keswick County Service Area #25, Mountain Gate Community Services District, Sacramento Municipal Utility District, San Juan Water District, Santa Clara Valley Water District, Shasta County Water Agency, and City of Tracy for Settlement of the CVP M&I Ratesetting Lawsuit” entered into in 2005 to resolve City of Fresno v. United States, Civ. No. F-03-5350 (E.D.Cal). As specified in the settlement agreement, the interest rate for the unpaid balance shall be 3.50 percent per annum.

(e) Repayment Obligation and Annual Payment Schedule.

(1) Interim Repayment Obligation. The Contractor’s interim repayment obligation will be computed by totaling its separate, individual share of reimbursable capital costs for Reach 1 Facilities, Reach 2 Facilities and Reach 3 Facilities, as of September 30, 2004, shown on Exhibit C, plus its unpaid capital interest, minus its accumulated repayment as of September 30, 2004. The Contractor’s annual payment schedule shown on Exhibit D reflects an allocation of Reach 1 Facilities cost to the Contractor of 78 percent, and a stepped repayment structure.

(2) Final Repayment Obligation. Using the same allocation of Reach 1 Facilities cost to the Contractor and the same stepped repayment structure as in subparagraph (e)(1), the Contractor’s final repayment obligation for San Felipe Division Facilities will be computed by totaling its separate, individual share of reimbursable capital costs for Reach 1

Facilities, Reach 2 Facilities and Reach 3 Facilities, as of September 30, 2006, plus its final balance of unpaid capital interest, minus its final accumulated repayment. The reimbursable San Felipe Division capital costs shown on Exhibit C, and the Contractor's annual payment schedule on Exhibit D will be revised in a manner consistent with the above, without amending this Contract.

(f) Supplemental Payments and Relief from Payment Schedule.

(1) The Contractor may, at any time prior to the expiration of this Contract, make supplemental payment(s) of all or part of the unpaid balance for any or part of the Contractor's share of Reach 1 Facilities, Reach 2 Facilities or Reach 3 Facilities, or its unpaid capital interest, in which case the repayment schedule in Exhibit D will be shortened and will maintain the same stepped repayment structure over the remaining repayment period. Exhibit D may be revised by mutual agreement of the Parties without amending this Contract.

(2) If circumstances arise that compromise the Contractor's ability to make payments according to Exhibit D, the Contractor may request a deferment of said payments consistent with Reclamation law, and if approved, Exhibit D shall be revised accordingly by mutual agreement without amending this Contract.

(g) Upon repayment of the amounts required under this Article, Contractor shall have no further repayment obligations associated with the capital costs of the San Felipe Division Facilities or unpaid capital interest.

6. **Article 14 of the Existing Contract entitled PENALTY FOR DELINQUENT**

PAYMENTS is deleted in its entirety and replaced with the following:

CHARGES FOR DELINQUENT PAYMENTS

14. (a) The Contractor shall be subject to interest, administrative and penalty charges on delinquent installments or payments. When a payment is not received by the due date, the Contractor shall pay an interest charge for each day the payment is delinquent beyond the due date. When a payment becomes sixty (60) days delinquent, the Contractor shall pay an administrative charge to cover additional costs of billing and processing the delinquent payment. When a payment is delinquent ninety (90) days or more, the Contractor shall pay an additional penalty charge of six (6%) percent per year for each day the payment is delinquent beyond the due date. Further, the Contractor shall pay any fees incurred for debt collection services associated with a delinquent payment.

(b) The interest charge rate shall be the greater of the rate prescribed quarterly in the Federal Register by the Department of the Treasury for application to overdue payments, or the interest rate of one-half of one (0.5%) percent per month prescribed by Section 6 of the Reclamation Project Act of 1939 (Public Law 76-260). The interest charge rate shall be determined as of the due date and remain fixed for the duration of the delinquent period.

(c) When a partial payment on a delinquent account is received, the amount received shall be applied, first to the penalty, second to the administrative charges, third to the accrued interest, and finally to the overdue payment.

7. **Subdivision 5 of Article 16 of the Existing Contract entitled CONVEYANCE OF NON-PROJECT WATER is hereby amended by deleting the words:**

“the provisions of Articles 24, 25, and 26 hereof” and substituting the words “subdivision (b) of Article 31 of this Contract.”

8. **Article 17 of the Existing Contract entitled TRANSFER OF CARE, OPERATION, AND MAINTENANCE OF SANTA CLARA FACILITIES TO THE**

CONTRACTOR is hereby amended by changing its designation as article 17, to article “17.1”, and the following is added as article 17:

OPERATION AND MAINTENANCE BY OPERATING NON-FEDERAL ENTITY

17. (a) The operation and maintenance (O&M) of a portion of the Project facilities which serve the Contractor, and responsibility for funding a portion of the costs of such O&M, have been transferred to the San Luis & Delta-Mendota Water Authority, an Operating Non-Federal Entity by separate agreement (8-07-20-X0354) between the United States and the Operating Non-Federal Entity San Luis & Delta-Mendota Water Authority. That separate agreement shall not interfere with or affect the rights or obligations of the Contractor or the United States hereunder.

(b) The Contracting Officer has previously notified the Contractor in writing that the Operation and Maintenance of a portion of the Project facilities which serve the Contractor has been transferred to the Operating Non-Federal Entity San Luis & Delta-Mendota Water Authority, and therefore, the Contractor shall pay directly to the Operating Non-Federal Entity San Luis & Delta-Mendota Water Authority, or to any successor approved by the Contracting Officer under the terms and conditions of the separate agreement between the United States and the Operating Non-Federal Entity San Luis & Delta-Mendota Water Authority described in subdivision (a) of this Article, all rates, charges, or assessments of any kind, including any assessment for reserve funds, which the Operating Non-Federal Entity San Luis & Delta-Mendota Water Authority or such successor determines, sets, or establishes for the O&M

of the portion of the Project facilities operated and maintained by the Operating Non-Federal Entity San Luis & Delta-Mendota Water Authority or such successor. Such direct payments to the Operating Non-Federal Entity San Luis & Delta-Mendota Water Authority or such successor shall not relieve the Contractor of its obligation to pay directly to the United States the Contractor's share of the Project Rates, Charges, and Tiered Pricing Component except to the extent the Operating Non-Federal Entity San Luis & Delta-Mendota Water Authority collects payments on behalf of the United States in accordance with the separate agreement identified in subdivision (a) of this Article.

(c) For so long as the O&M of any portion of the Project facilities serving the Contractor is performed by the Operating Non-Federal Entity San Luis & Delta-Mendota Water Authority, or any successor thereto, the Contracting Officer shall adjust those components of the Rates for Water Delivered under this Contract representing the cost associated with the activity being performed by the Operating Non-Federal Entity San Luis & Delta-Mendota Water Authority or its successor

(d) In the event the O&M of the Project facilities operated and maintained by the Operating Non-Federal Entity San Luis & Delta-Mendota Water Authority is re-assumed by the United States during the term of this Contract, the Contracting Officer shall so notify the Contractor, in writing, and present to the Contractor a revised Exhibit "B" which shall include the portion of the Rates to be paid by the Contractor for Project Water under this Contract representing the O&M costs of the portion of such Project facilities which have been re-assumed.

The Contractor shall, thereafter, in the absence of written notification from the Contracting Officer to the contrary, pay the Rates, Charges, and Tiered Pricing Component specified in the revised Exhibit “B” directly to the United States in compliance with Article 7 of this Contract.

9. **The Existing Contract is hereby amended to add Articles 18.1 and 18.2 entitled OPERATION AND MAINTENANCE BY SANTA CLARA VALLEY WATER DISTRICT; and RIGHT TO RECOVER COSTS INCURRED BY SANTA CLARA VALLEY WATER DISTRICT:**

OPERATION AND MAINTENANCE BY SANTA CLARA VALLEY WATER DISTRICT

18.1 (a) The O&M of a portion of the Division Facilities have been transferred to Santa Clara Valley Water District by separate agreement (Contract No. 6-07-20-X0290) between the United States and the existing San Felipe Division Contractors. Unless otherwise expressly set forth herein, nothing in this Contract is intended to affect the rights and obligations set forth in Contract No. 6-07-20-X0290. The United States and the Contractor agree that this Contract, and any amendments or renewals thereto, shall be considered to be within the definition of “Contract” as provided in Contract No. 6-07-20-X0290, so that the execution of this Contract shall not impact the effectiveness of Contract No. 6-07-20-X0290, and Contract No. 6-07-20-X0290 is hereby deemed to so provide.

(b) The Contractor is authorized under Contract No. 6-07-20-X0290 and this Contract to undertake activities necessary for the complete care, operation, maintenance and

replacement of Reach 1 Facilities, Reach 2 Facilities and Reach 3 Facilities, to maintain efficient and reliable operating condition and fulfillment of authorized San Felipe Division purposes. The Contracting Officer shall use its best efforts to promptly review proposals for work to be undertaken by the Contractor pursuant to said agreement, and to promptly coordinate and facilitate such work. To the extent that the approval or determination of the Contracting Officer is required in connection with any such activities, such approval or determination shall not be unreasonably withheld.

RIGHT TO RECOVER COSTS INCURRED BY SANTA CLARA VALLEY WATER DISTRICT

18.2 (a) Subject to Articles 18.2(b) and 18.2(c) of this Contract, the Contractor, as the Operating Non-Federal Entity, has the right to require any entity or individual to pay the Contractor an amount(s) to recover costs incurred by the Contractor for Reach 1 Facilities, Reach 2 Facilities and Reach 3 Facilities, in addition to O&M costs, provided that such amount(s) are just and reasonable. In any contract or approval by the Contracting Officer to deliver water through such Facilities, the Contracting Officer shall require the entity or individual to pay such amount(s) to the Contractor, upon presentation of Contractor's invoice therefore.

(b) Unless otherwise agreed, the Contractor's right to recover capital costs from San Benito County Water District is limited to such capital costs for its share of Reach 1 Facilities that are not paid directly to the United States by San Benito County Water District under the terms of Contract No. 8-07-20-W0130A. San Benito County Water District's share of Reach 1 Facilities shall be based on Article 3(b) of Contract No. 6-07-20-X0290 or as otherwise

mutually agreed upon by the Contractor and San Benito County Water District in a separate contract.

(c) Amount(s) imposed by the Contractor to recover costs from Pajaro Valley Water Management Agency shall include previous and current costs, and Pajaro Valley Water Management Agency's share of capital repayment, all of which are to be consistent with the cost-sharing provisions of Contract No. 6-07-20-X290, or as otherwise mutually agreed by the Contractor and Pajaro Valley Water Management Agency in a separate contract. Such contract and amount(s) collected pursuant thereto shall satisfy the requirements of Article 3 of Contract No. 6-07-20-X0290.

10. Article 24 of the Existing Contract entitled **LANDS NOT TO RECEIVE WATER FURNISHED TO CONTRACTOR BY UNITED STATES UNTIL OWNERS THEREOF EXECUTE CERTAIN CONTRACTS**, Article 25 of the Existing Contract entitled **VALUATION AND SALE OF EXCESS LANDS** and Article 26 of the Existing Contract entitled **EXCESS LANDS** are hereby deleted in their entirety and the following is added as subdivision (b) of Article 31 of the Existing Contract entitled **RULES AND REGULATIONS**:

(b) Except as provided by the San Felipe Division Act of August 28, 1967 (81 Stat. 173), the parties agree that the delivery of agricultural water or use of Federal facilities pursuant to this Contract is subject to Federal Reclamation law, including but not limited to the Reclamation Reform Act of 1982 (43 U.S.C.390aa et seq.), as amended and supplemented, and

the rules and regulations promulgated by the Secretary of the Interior under Federal Reclamation law.

11. **The Existing Contract is hereby amended to add Article 43 entitled WATER CONSERVATION:**

WATER CONSERVATION

43. (a) Prior to the delivery of water provided from or conveyed through Federally constructed or Federally financed facilities pursuant to this contract, the Contractor shall be implementing an effective water conservation and efficiency program based on the Contractor's water conservation plan that has been determined by the Contracting Officer to meet the conservation and efficiency criteria for evaluating water conservation plans established under Federal law. The water conservation and efficiency program shall contain definite water conservation objectives, appropriate economically feasible water conservation measures, and time schedules for meeting those objectives. Continued Project water delivery pursuant to this contract shall be contingent upon the Contractor's continued implementation of such water conservation program. In the event the Contractor's water conservation plan or any revised water conservation plan completed pursuant to this Contract have not yet been determined by the Contracting Officer to meet such criteria, due to circumstances which the Contracting Officer determines are beyond the control of the Contractor, water deliveries shall be made under this contract so long as the Contractor diligently works with the Contracting Officer to obtain such determination at the earliest practicable date, and thereafter the Contractor immediately begins

implementing its water conservation and efficiency program in accordance with the time schedules therein.

(b) Should the amount of M&I Water delivered pursuant to subdivision (b) of Article 3 of this Contract equal or exceed 2,000 acre-feet per Year, the Contractor shall implement the Best Management Practices identified by the time frames issued by the California Urban Water Conservation Council for such M&I Water unless any such practice is determined by the Contracting Officer to be inappropriate for the Contractor.

(c) The Contractor shall submit to the Contracting Officer a report on the status of its implementation of the water conservation plan on the reporting dates specified in the then existing conservation and efficiency criteria established under Federal law.

(d) At 5 year intervals, the Contractor shall revise its water conservation plan to reflect the then current conservation and efficiency criteria for evaluating water conservation plans established under Federal law and submit such revised water management plan to the Contracting Officer for review and evaluation. The Contracting Officer will then determine if the water conservation plan meets Reclamation's then current conservation and efficiency criteria for evaluating water conservation plans established under Federal law.

(e) If the Contractor is engaged in direct groundwater recharge, such activity shall be described in the Contractor's water conservation plan.

12. Except as expressly modified by the provisions hereof, the Existing Contract shall remain in full force and effect.

IN WITNESS WHEREOF, the parties hereto have executed this First Amendment to Contract
No. 7-07-20-W0023 on the day and year first above written.

THE UNITED STATES OF AMERICA

By: _____
Regional Director, Mid-Pacific Region
Bureau of Reclamation

SANTA CLARA VALLEY WATER DISTRICT

By: _____
President of the Board of Directors

Attest:

By: _____
Secretary of the Board of Directors

EXHIBIT A

[Santa Clara Valley Water District Service Area Map]

EXHIBIT B
[RATES AND CHARGES]

EXHIBIT B

January 1, 2006 to December 31, 2006, Water Rates
for Amendment No. 1 to Contract No. 7-07-20-W0023
Santa Clara Valley WD

		Rates per Acre-Foot	
		Irrigation	M&I
		<u>Water</u>	<u>Water</u>
<u>BUREAU OF RECLAMATION</u>			
<u>O&M COST-OF-SERVICE</u>			
<u>RATES:</u>			
Capital Rates		\$8.57	\$12.68
O&M Rates:			
Water Marketing		\$6.09	\$4.36
Storage		\$6.42	\$8.18
Direct Pumping		<u>\$10.92</u>	<u>\$10.92</u>
	TOTAL O&M		
	RATE:	\$23.43	\$23.46
CFO/PFR Adjustment Rate:		\$1.56	\$2.11
Deficit Rates:			
Non-Interest Bearing		N/A	N/A
Interest Bearing		<u>\$0.00</u>	<u>\$2.90</u>
	TOTAL		
	DEFICIT		
	RATE:	\$0.00	\$2.90
TOTAL COST-OF-SERVICE			
RATES		<u>\$33.56</u>	<u>\$41.15</u>

FULL COST RATES

Section 202(3) Rates is applicable to a
Qualified Recipient

or to a Limited Recipient receiving irrigation
water
on or before October 1, 1981. **\$49.45**

Section 205(a)(3) Rate is applicable to a
Limited
Recipient that did not receive irrigation water
on
or before October 1, 1981. **\$57.80**

TIERED PRICING RATES

Tier 1 Pricing Rate \leq 80%
of Contract total [COS Rate] **\$33.56** **\$41.15**

Tier 2 Pricing Rate $>$
80% \leq 90%
of Contract Total [Full Cost Rate [(202(3)) +
(COS Rate)/2] **\$41.51** **\$46.01**

Tier 3 Pricing Rate $>$
90%
of Contract Total [Full Cost Rate [202(3)] **\$49.45** **\$50.86**

SURCHARGES UNDER P.L. 102-575 TO
RESTORATION FUND *

Restoration Payments (3407 (d)(2)(A)) **\$8.24** **\$16.49**

*Conveyance and Conveyance Pumping Operating & Maintenance cost were removed for
ratesetting purposes and are to be billed directly to the water authorities

* * The surcharges are payments in addition to water rates and were determined pursuant
to Title XXXIV of Public Law 102-575. These surcharges are on a fiscal year basis (10/1-
9/30) and will change each fiscal year.

M&I HISTORIC USE
FOR 2006 CONTRACT YEAR:¹

111,000acre-feet

¹ If the historic use amount (as determined pursuant to the existing CVP M&I Water Shortage Policy) is less than 111,000acre-feet, then the historic use shall be determined pursuant to Article 2 of the Water Reallocation Agreement between the United States, Santa Clara Valley Water District and the San Luis Delta-Mendota Water Authority dated April 17, 1997.

EXHIBIT C
SAN FELIPE DIVISION REIMBURSABLE CAPITAL COSTS

	Total	Reach 1 Facilities	Reach 2 Facilities	Reach 3 Facilities	SBCWD Facilities
Reclamation Facilities					
Pacheco Pumping Plant	\$30,220,448	\$30,220,448			
Pacheco Substation 70 kv Line	\$239,745	\$239,745			
Pacheco Substation 70-kv IDC	\$5,044	\$5,044			
Pacheco Tunnel	\$75,352,668	\$75,352,668			
Pacheco Conduit	\$29,764,210	\$29,764,210			
Santa Clara Tunnel and Conduit	\$67,877,286		\$30,853,312	\$37,023,974	
Coyote Pumping Plant	\$16,493,415			\$16,493,415	
Coyote Pumping Plant - 115 kv Line	\$1,923,559			\$1,923,559	
Coyote Pumping Plant - 115 kv Line IDC	\$18,082			\$18,082	
Hollister Canal and Conduit	\$26,032,191				\$26,032,191
San Justo Dam & Reservoir	\$35,286,142				\$35,286,142
San Felipe Division IDC	\$32,227,149	\$17,075,058	\$5,840,252	\$7,008,303	\$2,303,536
San Felipe Division Permanent Operating Facilities	\$234,222	\$111,996	\$25,262	\$46,758	\$50,206
San Felipe Division Wildlife Mitigation Lands	\$301,445	\$144,140	\$32,512	\$60,178	\$64,615
Power System					
Pacheco Pumping Plant Substation	\$1,203,910	\$1,203,910			
Pacheco Pumping Plant IDC	\$370,824	\$370,824			
Coyote Pumping Plant Substation	\$1,649,124			\$1,649,124	
Coyote Pumping Plant IDC	\$218,184			\$218,184	
	\$319,417,648	\$154,488,043	\$36,751,338	\$64,441,578	\$63,736,689

¹ Amounts listed for each facility include interest during construction.

EXHIBIT D
SAN FELIPE DIVISION
ANNUAL REPAYMENT SCHEDULE

	Irrigation	M&I	Unpd Capital Int	
SCVWD & SBCWD	\$94,258,467	\$192,721,605	\$82,790,528	\$369,770,600
Excess Capacity	\$30,231,310			\$30,231,310
Total to be Repaid	\$124,489,777	\$192,721,605	\$82,790,528	\$400,001,910
	0%	3.4874%	3.5000%	

	Payment Due Date January	Year	Payment			
			Ag	M&I	Unpd Cap Int	Total
2007		1	\$256,774	\$10,109,670	\$5,901,050	\$16,267,494
2008		2	\$256,774	\$10,109,670	\$5,901,050	\$16,267,494
2009		3	\$256,774	\$10,109,670	\$5,901,050	\$16,267,494
2010		4	\$256,774	\$10,109,670	\$5,901,050	\$16,267,494
2011		5	\$256,774	\$10,109,670	\$5,901,050	\$16,267,494
2012		6	\$256,774	\$10,109,670	\$5,901,050	\$16,267,494
2013		7	\$256,774	\$10,109,670	\$5,901,050	\$16,267,494
2014		8	\$256,774	\$10,109,670	\$5,901,050	\$16,267,494
2015		9	\$256,774	\$10,109,670	\$5,901,050	\$16,267,494
2016		10	\$256,774	\$10,109,670	\$5,901,050	\$16,267,494
2017		11	\$4,084,536	\$10,109,248	\$3,068,267	\$17,262,051
2018		12	\$4,084,536	\$10,109,248	\$3,068,267	\$17,262,051
2019		13	\$4,084,536	\$10,109,248	\$3,068,267	\$17,262,051
2020		14	\$4,084,536	\$10,109,248	\$3,068,267	\$17,262,051
2021		15	\$4,084,536	\$10,109,248	\$3,068,267	\$17,262,051
2022		16	\$4,084,536	\$10,109,248	\$3,068,267	\$17,262,051
2023		17	\$4,084,536	\$10,109,248	\$3,068,267	\$17,262,051
2024		18	\$4,084,536	\$10,109,248	\$3,068,267	\$17,262,051
2025		19	\$4,084,536	\$10,109,248	\$3,068,267	\$17,262,051
2026		20	\$4,084,536	\$10,109,248	\$3,068,267	\$17,262,051
2027		21	\$8,107,667	\$10,109,248	\$3,068,267	\$21,285,182
2028		22	\$8,107,667	\$10,109,248	\$3,068,267	\$21,285,182
2029		23	\$8,107,667	\$10,109,248	\$3,068,267	\$21,285,182
2030		24	\$8,107,667	\$10,109,248	\$3,068,267	\$21,285,182
2031		25	\$8,107,667	\$10,109,248	\$3,068,267	\$21,285,182
2032		26	\$8,107,667	\$10,109,248	\$3,068,267	\$21,285,182
2033		27	\$8,107,667	\$10,109,248	\$3,068,267	\$21,285,182
2034		28	\$8,107,667	\$10,109,248	\$3,068,267	\$21,285,182
2035		29	\$8,107,667	\$10,109,248	\$3,068,267	\$21,285,182
2036		30	\$8,107,667	\$10,109,248	\$3,068,267	\$21,285,182

* Final Exhibits will be Contractor-specific.